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SENSITIVE
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TAGS: [EAGR](#) [EFIN](#) [ENRG](#) [EPET](#) [PGOV](#) [SY](#)
SUBJECT: SYRIANS ADJUSTING TO "NEW NORMAL" OF INFLATION

REF: A. DAMASCUS 234
[1](#)B. DAMASCUS 307
[1](#)C. DAMASCUS 311
[1](#)D. DAMASCUS 320
[1](#)E. DAMASCUS 518
[1](#)F. DAMASCUS 240

Summary

[1](#)1. (SBU) Three months after the SARG cut fuel subsidies by 50 percent, the consequent 350 percent increase in the price of diesel has been reflected across the spectrum of goods and services. Official SARG statistics indicate inflation has increased by 15 percent since summer 2007, but many economists estimate the actual figure to be closer to 25 percent. Economic reformers praise the SARG's decision to reduce subsidies but note the decision was not accompanied by adjustments in SARG monetary policy that could have better mitigated the resulting inflation. While reformers claim that short-term inflation is an inevitable side effect of the transition to a market economy, critics argue that decreased consumer purchasing power is evidence that reforms hurt Syria's majority poor. Meanwhile, Syrian consumers are bracing for additional, seasonal price hikes with the onset of Ramadan in early September. End summary.

Inflation up by 25 Percent

[1](#)2. (SBU) Officials at the Ministry of Economy and Trade report that consumer prices have increased by 15 percent since summer 2007, but private economists estimate actual inflation is closer to 25 percent. Post's internal price survey on a basket of 100 goods reflects a cumulative inflation rate of 24.55 percent since June 2007, and 29.97 percent since June 2006. The utilities sector has been hardest hit, with an 87 percent jump in the average cost of electricity, water, fuel and telephone rates. Food, which accounts for 42-50 percent of the average Syrian's budget, has increased in price by almost 23 percent.

Contributing Factors Persist

¶3. (SBU) The major factors contributing to inflation persist, with no immediate relief in sight. As stated in ref A, inflation in Syria is driven by a combination of international and local forces. Internationally, higher oil prices and global food inflation have hit Syrians hard -- especially since Syria has transitioned to become a net importer of refined petroleum products in 2007. Locally, three years of continuing drought contributed to record-low domestic agriculture production in 2008, exacerbating food inflation (refs C, E). Furthermore, the SARG decision to reduce fuel subsidies by half in early May 2008 (ref B) resulted in an overnight jump of 357 percent in the price of diesel, which has been reflected in the prices of most goods and services. Finally, Syria suffers from endemic corruption, and economists say that wealth obtained without contributing to GDP adds to inflation.

SARG Actions Attempt to Mitigate Inflation

¶4. (SBU) The SARG has taken several measures in 2008 to mitigate the impact of inflation. Most significantly, an early May Presidential Decree mandated a 25 percent and five percent raise for public and private sector employees and pensioners, respectively (ref B). In an effort to increase domestic agricultural supply, the Ministry of Economy and Trade banned the export of wheat, wheat flour, barley, lentils, chickpeas and animal feed. To reassure farmers and discourage smuggling, the Ministry of Agriculture increased set prices for strategic crops from 11 to 17 SYP/kg for wheat, from 30 to 41 SYP/kg for cotton, and from 9 to 15 SYP/kg for barley.

¶5. (SBU) In June, President Asad also issued the Consumer Protection Law as a follow-up to April's Competition and Protection from Monopoly Law, which are designed to deter merchants from price-gouging consumers with punishment up to life imprisonment. To monitor price controls and prevent hoarding, the Ministry of Economy and Trade increased the number of "supply squads" patrolling local markets around the clock. Finally, the Ministry of Social Affairs and Labor announced the establishment of a Social Assistance Fund and a National Program for Combating Poverty and Empowering Women -- although specific details of who may access the programs and how they will be funded have not yet been released.

SARG Monetary Policy Exacerbates the Problem

¶6. (SBU) Economists privately contend that the SARG has not taken an essential step to control inflation -- adjusting monetary policy. They point out that the Central Bank of Syria has kept interest rates around six percent, well below even the official estimate of 13 percent inflation. Not surprisingly, they say, the supply of money has expanded by some 13 percent at a time when a politically-independent Central Bank should be trying to shrink it. Rather than "losing money" in savings accounts as inflation outpaces interest rates, Syrians are borrowing "cheap" money to speculate on currencies, commodities, wheat and real estate. Such speculation, they explain, contributes additional pressure on markets and exacerbates the problem of inflation.

Inflation's Impact on Society

¶7. (SBU) With some estimating that 20 percent of Syria's population lives on just one U.S. dollar per day, 25 percent inflation could have a life-altering impact on over 3.7 million people. Syrian consumer purchasing power has dropped considerably in 2007-2008, as inflation outpaced SARG efforts to mitigate it. Public transportation and taxi fares, for

example, have doubled since the nation-wide pay raise was announced in May. Furthermore, government-mandated pay raises have proven of little consequence to the estimated 40 percent of the Syrian workforce that is employed by the "informal" sector (cash-based, non-contractual, no benefits). Anecdotal information suggests that most of these employees received a bonus to cover increased transportation costs, but little else.

¶8. (SBU) Inflation's impact on Syria's majority poor is evident in Damascus. Sidewalk vendors in lower-class shopping districts openly trade diesel ration cards on the black market (ref F). This phenomenon indicates that thousands of Syrians decided to sell the cards, issued by the SARG in April, to meet immediate cash-flow needs and worry about higher priced heating fuel when winter arrives. Rarely seen a year ago, child-beggars from rural areas are now a regular fixture near the entrances of western hotels and upscale shopping districts. Finally, economic crimes such as vehicle break-ins have noticeably increased in recent months.

Comment

¶9. (SBU) For much of this decade, SARG oil revenues and economic isolation somewhat insulated Syrians from regional inflation. Consequently, Syrians are just now waking up to the "new normal" of market-based prices in an era of high-priced oil. While Baathists try to earn political points by blaming tough times on economic "reforms," reform advocates blame the SARG for waiting to reduce fuel subsidies until global oil prices precipitated an economic crisis. Until the Syrian economy adjusts to the eventual elimination of all fuel subsidies -- projected by 2010 -- we anticipate inflation to continue. Even if conditions worsen, however, experts doubt that Baathist opposition could reverse recent economic reforms. As Ramadan approaches, the regime seems confident that, for now, the Syrian public's economic pain tolerance and desire for stability will see them through a peaceful, if more modest, holiday season.
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